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Longyear Business Reference Library
University of Alberta
1-15 Business Building
Edmonton, Alberta T6G 2G6



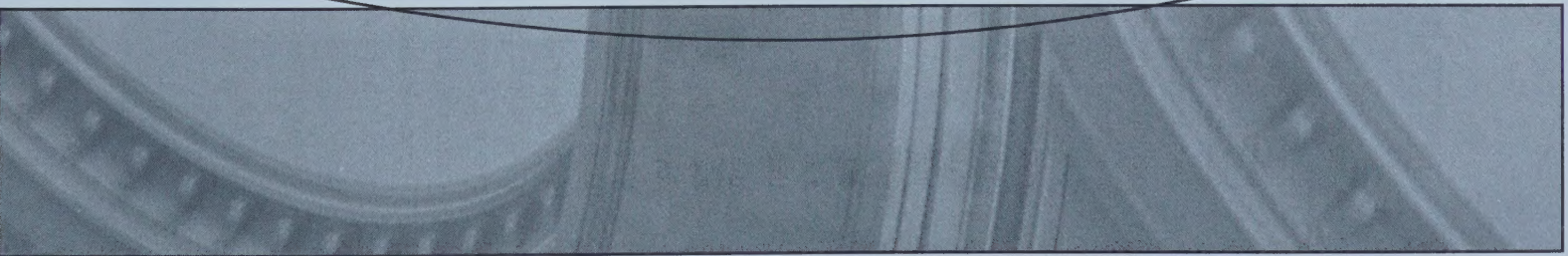
BROADVIEW PRESS 2003 ANNUAL REPORT



roadview Press: An Introduction

A name never says it all, but the word "broadview" expresses a good deal of the philosophy behind our company. We publish in a broad variety of subject areas in the humanities and social sciences. We are open to a broad range of political and philosophical viewpoints, from liberal and conservative to libertarian and Marxist; we welcome feminist perspectives, and we have a particular interest in addressing environmental issues. Our publishing program is internationally oriented, and we publish for a broad range of geographical markets – but as a Canadian company we also publish a broad range of titles with a Canadian emphasis. And our individual titles often appeal to a broad readership; we have many books that are as much of interest to the general reader as they are to academics and students.

Founded in 1985, Broadview Press now publishes approximately 60 titles per year and has annual sales revenues of more than \$3,700,000. It employs more than 30 people, primarily at its Calgary, Peterborough, and Guelph offices, and has sales representation around the world. Broadview is a fully independent publishing company – not an imprint or subsidiary of a larger multinational. The company believes in shared ownership, both with its employees and with the general public; since the year 2000 Broadview shares have been publicly traded on the TSX Venture Exchange under the symbol BDP.



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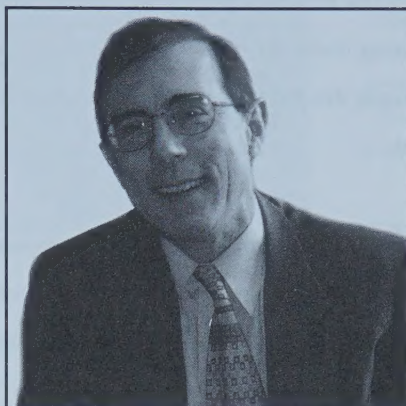
Financial Statements



President's Message

As much as anything, publishing is about making connections and cutting across boundaries; we at Broadview express those core values in a remarkable number of ways. Book publishers are all by nature intermediaries between authors and readers and the more that they can be active intermediaries, the better they are likely to be as publishers. Active in helping authors to communicate effectively with readers, and active in trying to find as many readers as possible through effective sales and marketing efforts. It is a sad fact that many academic publishers – and not a few academics – have traditionally seen sales and marketing as a faintly disreputable activity to be engaged in only when necessary, if at all. At Broadview, we see sales and marketing as being at the intellectual as well as at the commercial heart of publishing; if publishers are not enthusiastically involved in selling the books they publish, they will not long remain in touch with the market, and in turn will not long be able to help authors communicate effectively with readers.

Book publishing as we practice it at Broadview is also in a number of other ways about making connections and cutting across boundaries. It's about cutting across national boundaries – most of the books we publish are of interest to readers around the world. It's also about cutting across intellectual boundaries – a good many of the titles we publish touch on more than one academic field. And cutting across corporate boundaries too – such as the boundaries that in many firms separate sales and marketing from editorial acquisitions. (Perhaps also in this category might be



Don LePan

added boundaries between different levels in a corporate hierarchy; our longstanding resolve to keep Broadview as un-hierarchical as possible was given concrete expression in early 2004 with the implementation of an employee share ownership plan.) We make it a practice too of cutting across the boundaries that often separate the university from the wider community; much as we are keen to pursue academic sales, we are also always interested in making the books we publish accessible to the general reader. In all these ways Broadview is about making connections and cutting across boundaries.

As I was forcibly brought to realize in 2003, making connections is also about actively seeing connections – including connections that may not directly or immediately benefit the bottom line of a corporation. An example that should be conspicuous is the connection between the activities of a book publisher based in North America and the activities of North American logging companies. Obvious though it may seem, it was not a connection that we at Broadview saw clearly enough until 2003. This past year, thanks both to a gentle

nudge from a Greenpeace-funded initiative and to the commitment of several key individuals within Broadview, we connected the dots. Now, over 80% of Broadview titles are printed on either partially recycled or 100% recycled paper annually. It's an initiative that in the short term is costing the company an additional \$30,000 or so annually in production costs. As demand for these sorts of papers increases, however, more and more printers are stocking them in bulk, and prices are coming down. And just as important as the dollars now are the forests of the future; we believe that it is in the long-term financial interests of the book publishing industry specifically, as well as of the planet as a whole, to make this sort of change.

In closing, I would like to say thank you to all those who have helped us to make the sorts of connections that are at the heart of what we do. I would like to extend profound thanks to our authors, who play the most important role of all in creating Broadview books; to our staff, which to my mind rates collectively as among the most able and most dedicated in the entire industry; to the freelance editors and designers who play a crucial role in making Broadview books as fine as they can possibly be; and, not least of all, to our shareholders! If you would like to make more of a connection with us at Broadview in the coming year, I do hope you will be in touch.

President, Broadview Press Inc.



Allyson Foster



Lesley Jeannotte



Brett McLenithan

Management Discussion and Analysis

For the second year in a row Broadview in 2003 set all-time highs for both revenue and net income. This performance is a reflection of the outstanding books and highly cost-effective practices that the company has developed a strong reputation for. It is particularly encouraging that the 2003 performance also demonstrates Broadview's ability to weather significant adverse economic developments.

On the revenue side, sales increased by 20 per cent. The increase was spread across the list, with solid performances by important recently published titles such as *The Broadview Anthology of Drama*, *Sources for the History of Western Civilization*, *Politics: An Introduction to the Modern Democratic State* (second edition), *First Philosophy*, and *Thinking Government*, and continuing good results as well for backlist titles. The company's series of literary editions and other classics continued to build Broadview's reputation as an industry leader in that area, while the company continued to expand as well its publishing both of social science and humanities monographs aimed at secondary course text markets and of core texts for undergraduates. In all the company published 64 new titles in 2003 (compared to 56 and 46 in 2002 and 2001 respectively), of which 12 were new editions (compared to six and four in 2002 and 2001).

The company's long-standing efforts to build sales in export markets continued to reap substantial rewards in 2003, with Australian sales showing a particularly strong increase. The company relies on export sales to the United States for a very significant percentage (45 per cent in 2003) of its annual sales revenues, and there was a strongly negative development in 2003 relating to that sector; the roughly 20 per cent appreciation of the Canadian dollar against its American counterpart had the effect of substantially devaluing Broadview's US sales. US net sales in 2003 increased 31 per cent over 2002 in US dollar terms, but converted into Canadian currency increased by only 15 per cent. The company responded with increased marketing efforts, with renewed efforts at cost control, and with selective price increases – and managed to exceed the company's targets for revenue growth for the year despite the adverse currency development.

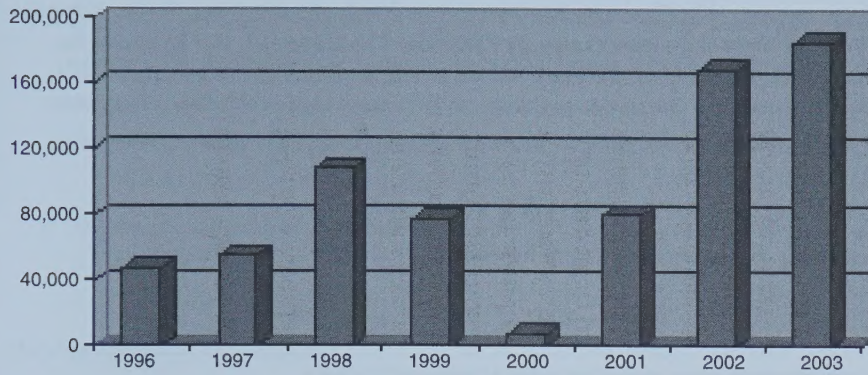
Despite the drag on sales revenue from the surging Canadian dollar, growth in revenue managed to keep pace with growth in total expenses in 2003. The company's profit picture thus also continued to improve; after-tax profit increased to \$184,839 (from \$169,004 in 2002, and \$80,075 in 2001).

Structurally the company is well positioned to perform effectively even in adverse economic conditions. Its operations are decentralized geographically (with no offices in high-overhead traditional industry locations such as Toronto and Vancouver), but highly integrated in terms of function: editorial acquisitions personnel also play an active role in sales and marketing; sales representatives in the off-season are assigned research tasks; customer service, promotion, and accounts personnel have overlapping training and help out where the need is greatest depending on the time of year; and so on.

The following sections provide a more detailed review of Broadview's operations in 2003, with comparative figures for previous years (unless otherwise noted, all figures in Canadian dollars).

NET INCOME

In 2003, Broadview's net income increased by 9 per cent, to reach \$184,839, the highest in the company's history.



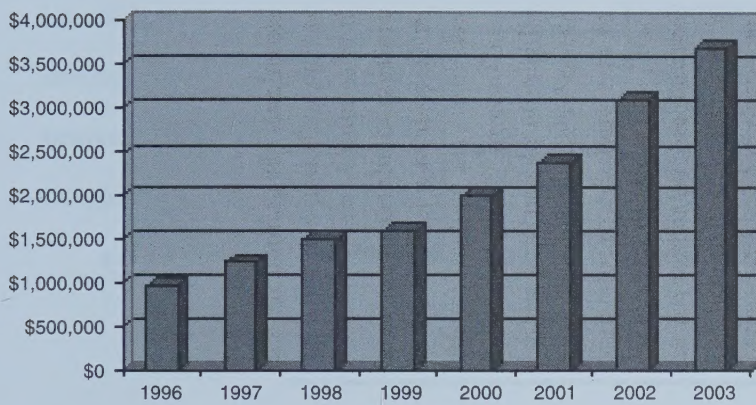
Broadview has now been profitable for eight consecutive years, with the relatively modest level of profit in 2000 (see graph) largely attributable to the expense of becoming a publicly traded company.

■ Net Income



Barbara Conolly

NET SALES OF BROADVIEW TITLES



Net sales (gross sales less returns) of Broadview titles grew to \$3,697,141 in 2003 – an increase of 20 per cent over 2002 sales of \$3,085,405 (2001: \$2,372,571). Over the last eight years, the company has enjoyed an average annual sales increase of 21 per cent.

■ Net Sales of Broadview Titles



Emily Cargan

NET SALES BY GEOGRAPHIC REGION

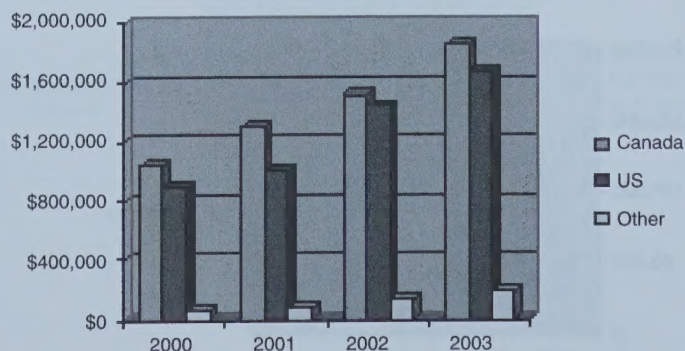
Canadian sales remained the largest component of Broadview's overall sales; sales in Canada totaled \$1,856,306, up 22 per cent from \$1,515,587 in 2002 (2001: \$1,288,834). The company's performance in Canada was driven largely by the allocation of increased resources to the pursuit of Canadian academic sales, with two new sales positions added. The company also benefited substantially from a "double cohort" in the province of Ontario starting university in the fall of 2003, with Ontario sales as a result climbing to 53 per cent of total Canadian sales (up from 47 per cent in 2002).

(As a result of the phase-out of Grade 13 in Ontario, two years graduated from high school simultaneously.)

By far the largest component of export sales comprised US sales of \$1,657,835, up 15 per cent from \$1,438,224 in 2002 (2001: \$1,010,352). Again, these figures are expressed in Canadian dollars; the effect of the change in currency valuations in 2003 can be clearly seen by looking at US sales in American currency. Broadview's net 2003 US sales totalled US\$1,219,489, up 31 per cent from US\$929,593 in 2002 (2001: US\$660,849).

UK sales totalled \$130,412, up 19 per cent from \$109,437 in 2002 (2001: \$65,373). The company appointed Johanna Bristow in 2003 to the new position of UK Academic Sales Coordinator.

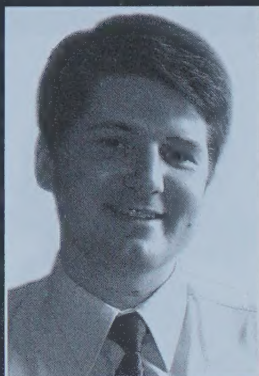
Australian sales totalled \$49,707, up 173 per cent from \$18,180 in 2002. Broadview changed to Unireps for Australian sales and distribution in late 2002, and the positive effect of the change is reflected in the 2003 figures. Broadview has also received a grant from the Association for the Export of Canadian Books that helped the company conduct its own in-person calling in Australia for the first time in 2003.



■ Canada
■ US
■ Other



Johanna Bristow



Craig Lawson



Anna Del Col



Tania Therien

Broadview's former UK distributor, Thomas Lyster Ltd., was purchased in 2002 by a much larger concern, Plymbridge Distributors Ltd. In 2003 Plymbridge experienced serious financial difficulty and in November was placed in Administration. Plymbridge's assets were purchased by National Book Network, an American company controlled by the academic publisher Rowman and Littlefield, and the new company NBN Plymbridge has carried on as Broadview's distributor. The Administrator is still in the process of winding down the affairs of the former company Plymbridge Distributors Ltd., and Broadview has recorded an allowance of \$25,000 in 2003, in the expectation that it will not be able to recover all the amounts owed it by Plymbridge Distributors Ltd.

NET SALES BY CUSTOMER CATEGORY

Net Sales by Customer Category (as a percentage of total net sales):

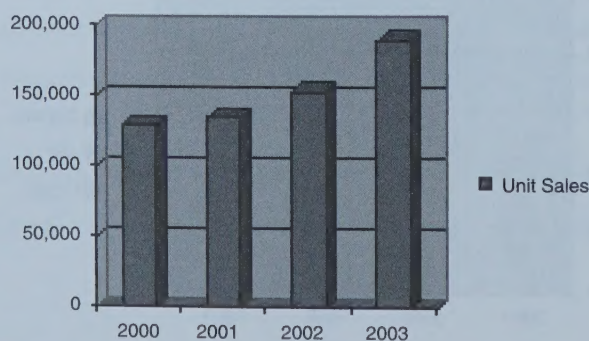
	2000	2001	2002	2003
CANADA				
CDN University/College	45	47	44	46
CDN Library	2	3	2	2
CDN Trade	4	4	3	1
CDN Other	2	1	1	1
Total Canadian	53	55	50	50
EXPORT				
US University/College	39	37	38	36
US Library	3	4	5	5
US Trade	3	2	2	4
Non-US Exports	2	2	5	5
Total Export	47	45	50	50
TOTAL	100	100	100	100

(It should be noted that the figures above are by necessity somewhat inexact, as Broadview publishes titles that appeal both to the Trade and to the Academic market. Universities often have substantial trade book departments, and trade stores often handle substantial textbook adoption orders, etc.)

Internet Sales: The total of all internet and related sales, including e-book sales and all sales to such companies as amazon.com and barnes&noble.com, was \$20,052 in 2003, compared to approximately \$11,000 in 2002 (2001: approximately \$18,000).

NET UNIT SALES

Net unit sales (number of books sold less returns) increased to 189,413 in 2003, up 21 per cent from 156,995 in 2002 (2001: 119,345). Although this increase is roughly in line with the 20 per cent growth in Broadview's sales revenue in 2003, typically management would like to see sales revenue growing slightly faster than units sold (meaning that the average price per book would have increased, offsetting inflationary costs); the fact that sales revenue grew slightly slower than units sold in 2003 illustrates the adverse effect of the soaring Canadian dollar on the value of our export sales in addition to the mix of titles sold during the year.



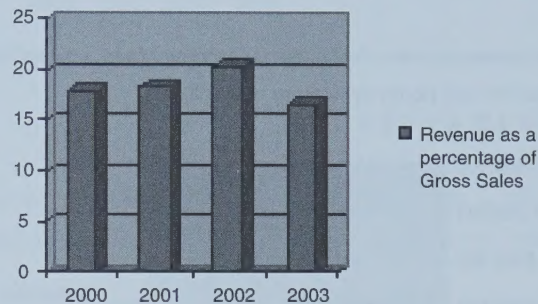
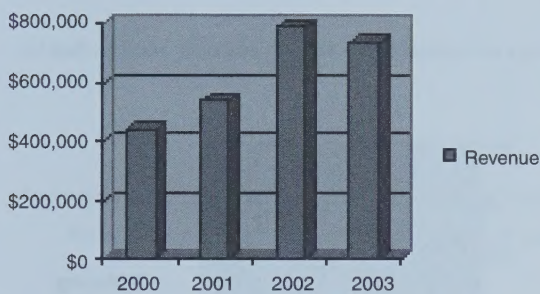
It should be noted that Broadview's prices in most cases remain substantially below those of comparable academic titles from competitors, and the company continues to take pride in its policy of fair pricing. This reflects well on the Broadview imprint or brand, generating support and loyalty among professors, students, and bookstore buyers.

RETURNS

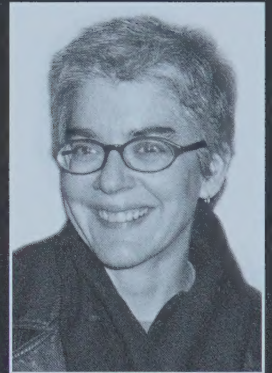
The North American book publishing industry is fairly unusual in that retailers are allowed to return unsold merchandise to publishers for a credit note, according to negotiated agreements between a publisher and its retailers. This is a normal part of business in the North American industry, but since returns incur both warehousing- and accounts-related expenses for the publisher, it is desirable to keep the level of returns as low as possible. It is normal for a publisher such as Broadview, selling primarily to university and college course text markets, to anticipate returns in the range of 15 to 25 per cent of gross sales.

In 2003 returns were valued at \$729,004, or 16 per cent of gross sales, compared to returns of \$786,696, or 20 per cent of gross sales in 2002 (2001: \$534,286 or 18 per cent of gross sales).

The improvement in the company's returns rate can be attributed entirely to improvements in its US returns. In 2003 Canadian returns represented 18 per cent of Canadian gross sales (2002: 18 per cent), while US returns in 2003 represented 16 per cent of US gross sales (2002: 24 per cent).



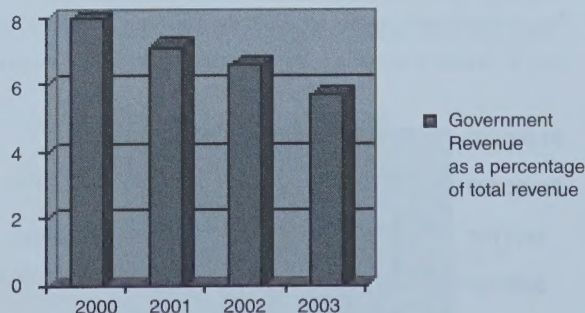
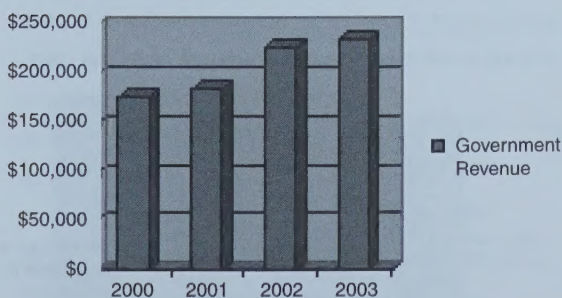
Carol Richardson



Julia Gaunce

GOVERNMENT REVENUE

Revenue from government sources remains enormously valuable to the company in enabling us to maintain a much more substantial publishing program of Canadian-oriented titles than would otherwise be economically viable. Particular thanks go to the Book Publishing Industry Development Program (BPIDP) of the Department of Canadian Heritage, as a result of which government revenue continued to be of significant assistance to Broadview in 2003. The company's total government revenue increased 2.8 per cent in 2003 to reach \$236,135, but fell to 5.7 per cent of total revenue, down from 6.7 per cent in 2002, which had been the lowest in the company's history. This represents a considerably smaller percentage of total revenue than is typical of Canadian-owned firms in Broadview's size range.



LeeAnna Dykstra

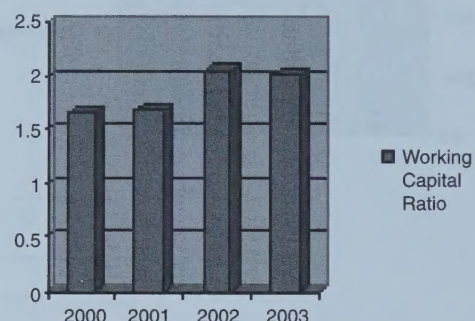
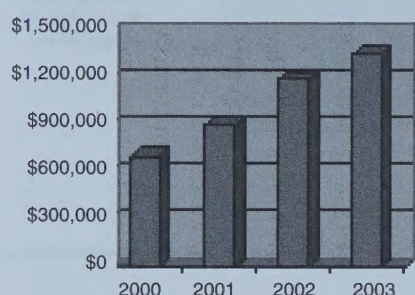
LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2003, working capital (current assets – current liabilities) amounted to \$1,358,711, compared to \$1,181,939 at Dec. 31, 2002 (Dec. 31, 2001: \$898,871). The working capital ratio (current assets / current liabilities) decreased slightly to 2.01 at Dec. 31, 2003, from 2.04 at Dec. 31, 2002 (Dec. 31, 2001: 1.69).

Over the almost twenty years of its existence Broadview has consistently shown an ability to raise working capital, in the form both of equity and of debt financing. Upon going public in 2000 the company raised over \$300,000 in net new capital, and it raised an additional \$170,761 in equity financing in 2002. In late 2003 the company was given tentative approval for a \$250,000 term loan from the Business Development Bank of Canada to provide financing in connection with one particularly significant long-term project, *The Broadview Anthology of British Literature* (scheduled for publication in early 2006).

The company's facility with the TD Bank is described in Note 5 of the annual financial statements. As the company has grown it has invested heavily in new products, and as a result has sometimes experienced negative cash flow even though it has been consistently profitable. As detailed below, the academic publishing industry is highly seasonal, which has significant implications for liquidity and cash resources.

As in previous years, the company's customer base is overwhelmingly composed of university bookstores, and can thus be regarded very positively in terms of credit risk.

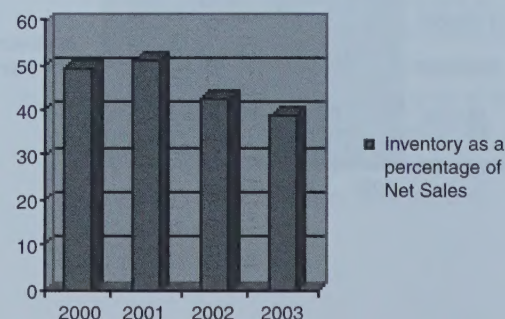
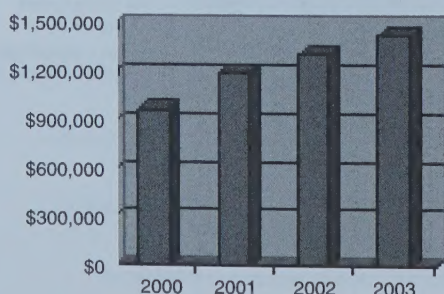


INVENTORY

Inventory (finished stock—see Note 3 in the annual financial statements) at December 31, 2003 was \$1,446,974, as compared with \$1,313,771 at Dec. 31, 2002 (Dec. 31, 2001: \$1,202,189); this is an increase of \$133,203 or 10 per cent over Dec. 31, 2002.

One area of concern at the end of 2001 was inventory as a percentage of net sales, which at 51 per cent was perceived as hurting the company's cash flow. The company reduced that figure to 43 per cent by the end of 2002, and is pleased to report that this figure has been reduced to 39 per cent as of Dec. 31, 2003.

The decreases in inventory as a percentage of net sales have been due in part to more cautious print runs, and in part simply to the substantial increases in net sales. With inventory now representing under 40 per cent of net sales, the company's cash flow is significantly improved – and the company has some room to manoeuvre if need be by increasing the size of its print runs (if increased printing costs, for example, or other changes in business conditions, were to put pressure on its unit costs).



Jennifer McCue



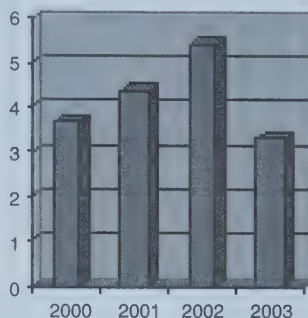
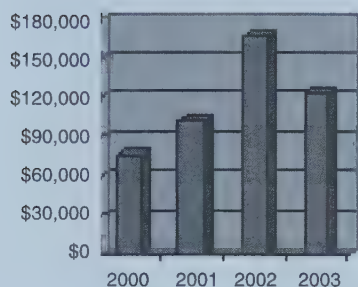
Keely Breibish



Mical Moser

INVENTORY WRITE-OFFS

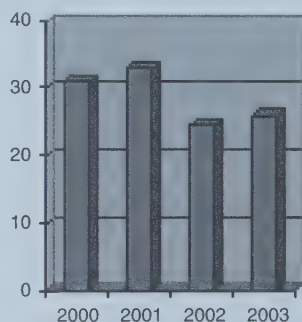
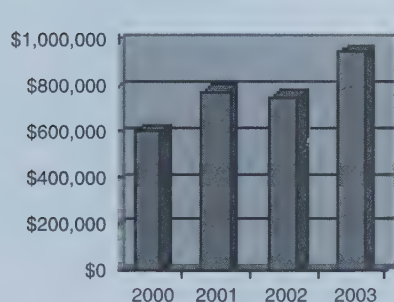
Broadview books tend to have a much longer shelf-life than books published primarily for the trade (general public) market, or than books in other book publishing sectors such as reference/technical. For many years the company's policy has been to write off stock more than three years old; although some such stock is still in fact saleable, experience has shown that beyond this point stock is not reliably saleable. For the year 2003 the value of stock written off was \$123,355, down very substantially from \$167,575 in 2002 (2001: \$103,234). Inventory write-offs as a percentage of net sales were 3.3 per cent, down from 5.4 per cent in 2002 (2001: 4.4 per cent).



Lisa Gray

RECEIVABLES

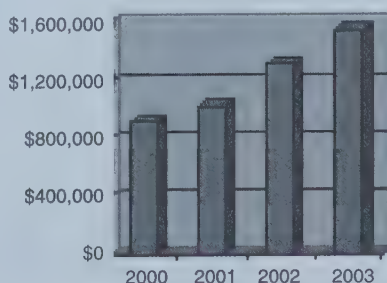
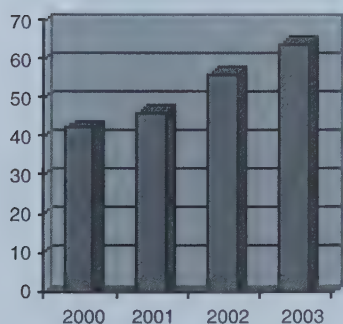
Receivables as at Dec. 31, 2003 were \$953,168, an increase of 26 per cent from \$753,794 in 2002 (\$782,406 in 2001). Receivables as a percentage of net sales were 26 per cent, up slightly from 24 per cent in 2002 (2001: 33 per cent).



Michael Harrison

BOOK PRODUCTION AND COST OF GOODS SOLD

In 2003 Broadview published 64 new titles, up from 56 in 2002 and 46 in 2001. Of these, 12 were new editions of previously published books (compared to six in 2002, and four in 2001). The company's total number of titles in print was 360 at year-end, and the company expects that this substantial and growing backlist will continue to be a strong generator of sales revenue in future years. Cost of goods sold, totalling \$1,546,189 (as compared to \$1,315,690 in 2002 and \$1,026,233 in 2001), increased by 18 per cent – a slower rate of increase than the increase in net sales, continuing the pattern of recent years.



Michelle Lobkowicz



Julie English



Tammy Roberts



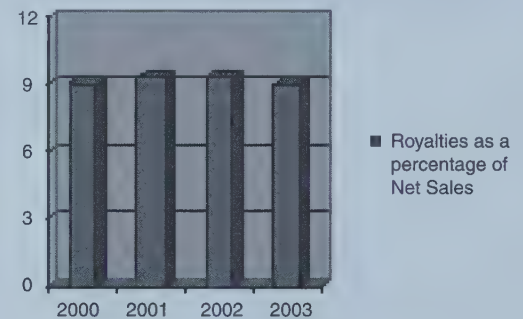
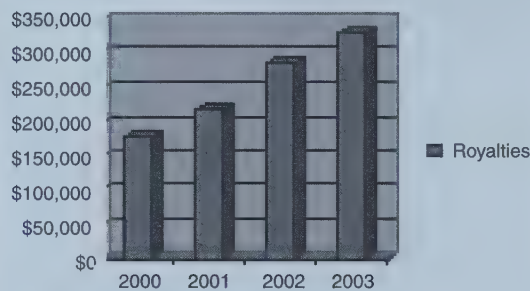
Blair Hamilton

The Environment and Book Production: In 2003 Broadview made a commitment to produce its books whenever feasible on recycled paper. Since the autumn of 2003, the vast majority of Broadview titles have been printed either on partially recycled stock or on 100 per cent recycled stock. Where partially rather than fully recycled stock is used the company has also been seeking from its suppliers assurances that these papers are "ancient forest friendly."

The company estimates that this policy change will result in additional annual expenditure in the range of \$20,000 to \$30,000, but feels strongly that the additional costs incurred not only represent an important company commitment to the environment, but that such a policy is also in the long-term interests of customers and the book publishing industry.

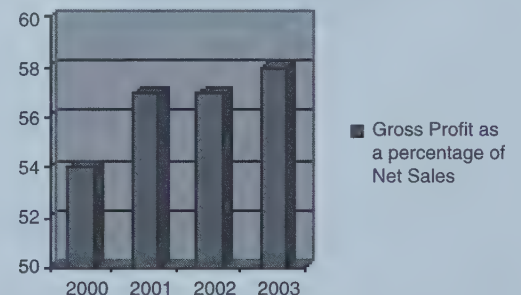
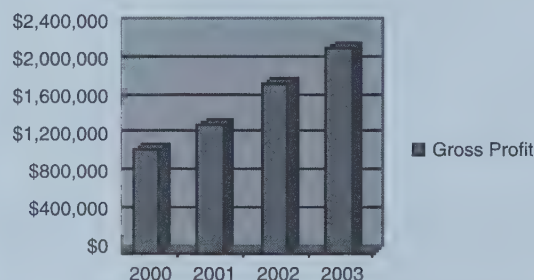
ROYALTY PAYMENTS

Royalties are paid to the author of a Broadview book whenever those books are sold. In 2003, royalty payments increased to \$331,447, an increase of 16 per cent over \$286,657 in 2002 (2001: \$220,435). Royalties as a percentage of net sales was 9 per cent, virtually unchanged from the previous three years.



GROSS PROFIT

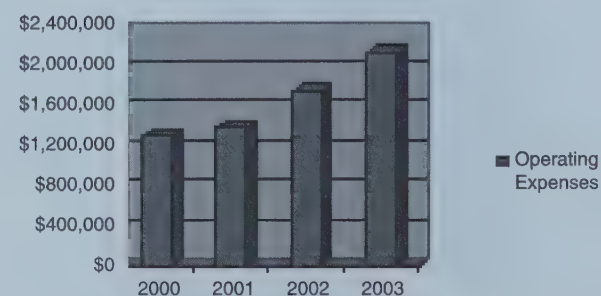
Broadview's gross profit (net sales revenue less cost of goods sold)* rose to \$2,150,952 in 2003, an increase of 22 per cent over \$1,769,715 in 2002 (2001: \$1,346,338). A standard rule of thumb in book publishing is that a gross profit in excess of 50 per cent of net sales represents a healthy level, and in 2003 Broadview's gross profit reached 58 per cent of its net sales.



* Please note that the audited financial statements present the company's gross profit as total revenue less cost of goods sold.

OPERATING EXPENSES

Operating expenses in 2003 totalled \$2,225,801, a 21 per cent increase over \$1,843,830 in 2002 (2001: \$1,468,546). That operating expenses rose slightly faster than net sales (20 per cent) can largely be attributed to the adverse effect of a strong Canadian dollar on revenues from export sales; however, it is management's intent to keep the growth of net sales ahead of the growth in operating expenses in 2004.

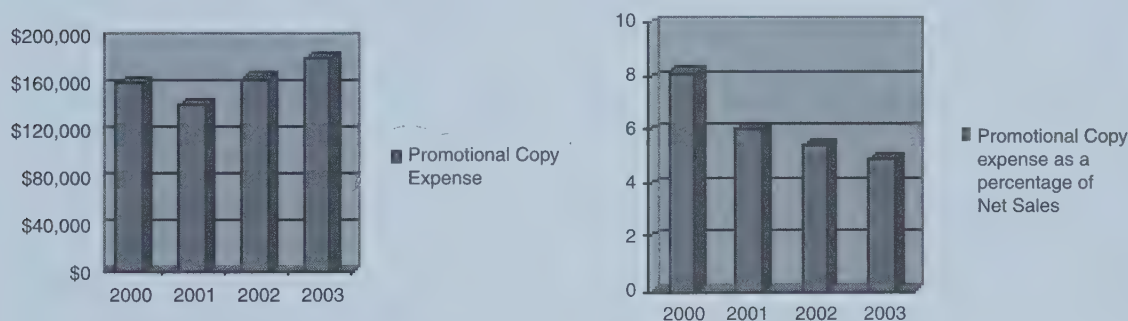


Employee Compensation: Of the operating expenses in 2003 some \$94,250 comprised bonus payments to employees in recognition of their accomplishments during the year; the equivalent figure in 2002 was \$79,200. Total compensation for employees also increased substantially during 2003, both as a result of the additions to the size of the company's overall staff, and as a result of significant wage and salary increases. As a smaller book publishing company Broadview in its early years had a wage and salary structure well below those of large book publishers. The company is committed to providing compensation packages that, with bonuses and other perquisites (such as those offered under the Employee Share Ownership Plan that takes effect in 2004), will ensure that Broadview can attract and retain the talent needed to continue its path of growth.

Regulatory Compliance Expense: Regulatory compliance demands continue to become more stringent in all North American jurisdictions. As a public company Broadview expects administrative expenses incurred in order to comply with increasingly complex regulations to grow in 2004 (and in subsequent years), and has made appropriate provisions in budgeting.

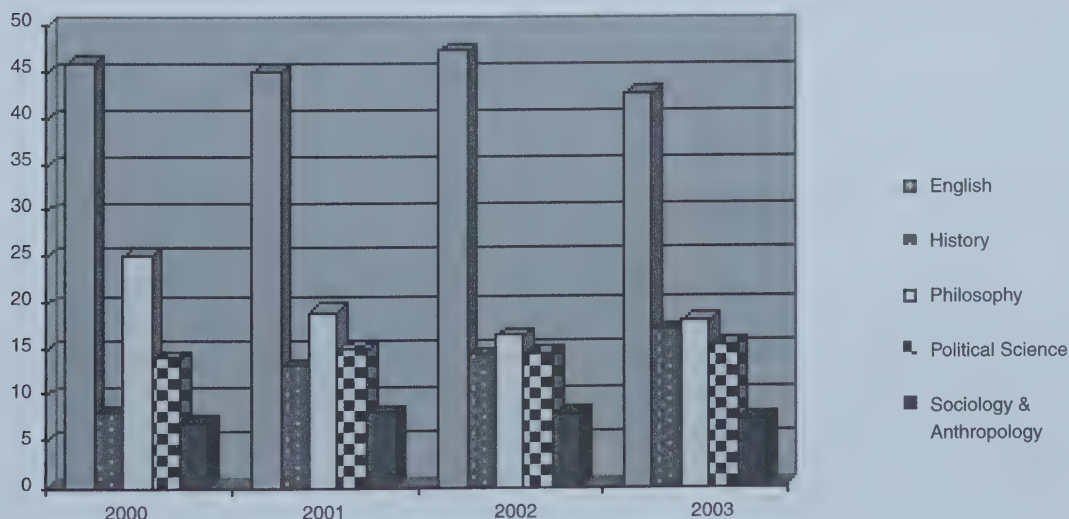
PROMOTIONAL COPY EXPENSE

This expense category is always a significant one for North American university text publishers, as promotional copies enable academics to review books they may consider adopting as course texts. While promotional copy expense rose 10 per cent in 2003 to \$182,341 from its 2002 level of \$165,325 (2001: \$142,365), promotional copy expense as a percentage of net sales in 2003 fell to 4.9 per cent from 5.4 per cent in 2002 (2001: 6.0 per cent). The decline in promotional copy expense as a percentage of net sales may in part be due to the company in recent years having sent out fewer "blind" complimentary copies (copies sent without having been requested by the recipient).

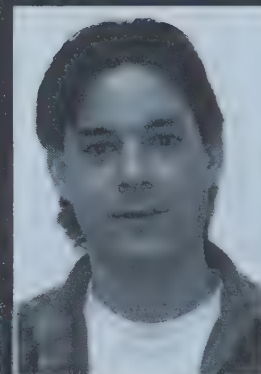


PUBLISHING PROGRAM

In 2003, sales of Humanities titles (English and Philosophy) amounted to 60.7 per cent of net sales (2002: 63.6 per cent, 2001: 64.0 per cent), while sales of Social Sciences titles (Political Science, History, Sociology and Anthropology) amounted to 39.3 per cent (2002: 36.4 per cent, 2001: 36.0 per cent).



Piper-Lee Bradford



Torsten Buenting



Connie Condon

ASSETS AND LIABILITIES

For the most part Broadview's assets and liabilities may be readily understood from the balance sheet. One category is deserving of comment, though – assets relating to books that have not yet been published. In accordance with generally accepted accounting principles, investments in books that have not yet been published as at year-end are totalled under "pre-Production costs" (see Note 3 in the annual financial statements). This total rose to \$225,422 in 2003 from \$187,252 in 2002 (2001: \$148,905), and is projected to continue to rise very substantially over the next two years as a result of the company's investment in future textbook projects – most significantly, in *The Broadview Anthology of British Literature* (scheduled for early 2006 publication).

Though the material in many Broadview books has the potential to be re-cast in a variety of saleable forms, the company does not carry any entry on its balance sheet to account for intellectual assets.

PEOPLE

That Broadview continues to turn in excellent financial performances may be attributed to three groups of people – not least of all an extraordinarily motivated and extraordinarily capable group of Broadview employees. Carol Richardson, Barbara Conolly, Tara Lowes, Blair Hamilton, Mical Moser, Julia Gaunce, and Anne Brackenbury each have many years experience with the press and all do truly outstanding work. LeeAnna Dykstra, Tammy Roberts, Tania Therien, Craig Lawson, Lisa Gray, Johanna Bristow, and Torsten Buenting each have fewer than five years experience, yet all perform at the sort of levels one might expect from people with far greater experience. With a number of other outstanding individuals having joined us in the past year or two, we believe that we have a team that is second to none among commercial academic publishers in the humanities and social sciences. It is a striking reflection of the dedication and loyalty of Broadview staff that in its nineteen years of existence the company has lost only two employees to other book publishing companies.

In recognition of these outstanding efforts Broadview has long made it a practice of distributing share options to all its employees. Given the question marks that abuses at some corporations have raised concerning options, a decision was made in 2003 (in consultation with all employees) to shift from an annual distribution of options to an Employee Share Ownership Plan; the new plan has gone into effect in 2004.

Two other groups of people play key roles in Broadview's continuing success. The contribution of our authors deserves to be recognised and applauded; Broadview authors represent a diverse group, from junior academics to some of the most senior and respected academics in North America, but they share a dedication to scholarship and to the value of intellectual communication. So too does another very important group – the outstanding editors and designer/typesetters who play a crucial role in making Broadview books both beautiful and readable – in every sense of the word.

Finally, it is with great sadness that we report the passing in 2003 of one of Broadview's best-loved former employees; Larry Richardson died this past summer. He is very greatly missed by all of us at Broadview.

CORPORATE GOVERNANCE

The members of the Broadview Board of Directors are Susan Bennett, Michael Harrison (Vice-President), Michael Jackel, Don LePan (President), Roy MacLaren, Douglas McArthur, Ian Rhind (Chair), Fraser Seely, Janet Sisson, and Thomas Symons. The Board meets four times per year for regularly scheduled full meetings, and from time to time for additional special meetings. The Board's audit committee comprises Douglas McArthur (Chair), Ian Rhind, and Don LePan. The Board's compensation committee comprises Thomas Symons (Chair), Janet Sisson, and Ian Rhind.



Janet Neale



Tara Lowes



Reine Montgomery

Management Discussion and Analysis

PUBLISHING PROGRAM

In 2004 Broadview plans to continue its successful publishing strategy; the company is projecting further sales growth and another profitable year. The subject area focus of Broadview's publishing program is projected to remain unchanged in 2004.

Among the important titles scheduled for publication are *A History of Science in Society: From Philosophy to Utility*, by Andrew Ede and Lesley Cormack; *The Broadview Anthology of Short Fiction*, edited by Julia Gaunce and Suzette Mayr; two new first-year texts from philosopher Robert Martin; and new editions of highly successful texts such as *The Real Worlds of Canadian Politics*, *A Short History of the Middle Ages*, and *Critical Thinking*. Approximately twenty new Broadview Editions are scheduled for publication, including editions of such classics as *Common Sense*, *Emma*, *Middlemarch*, *Anne of Green Gables*, and *The Communist Manifesto*. We will continue to publish a significant number of monographs – including a philosophical overview of hypocrisy by Béla Szabados and Eldon Soifer and a study of homelessness by Vincent Lyon-Callo.

The company believes that titles such as many of those mentioned above will offer clear advantages over competing works from other publishers. It believes, for example, that titles such as *A History of Science in Society* and the Broadview Editions of *Common Sense* and *The Communist Manifesto* will provide broader perspectives for students than do competing texts; yet in each case the company plans to price these titles very attractively with a view to the competition.

In total, the company plans to publish between 65 and 70 new titles in 2004. We feel confident that the 2004 list will continue to build a strong sales base for the company while maintaining and extending our strong reputation for publishing outstanding books that express a diverse range of political and philosophical points of view.

SALES, MARKETING, AND EDITORIAL ACQUISITIONS

We plan to increase staff in several areas in 2004, certainly including both sales and editorial acquisitions. In 2003 we stepped up our sales and promotion efforts, appointing Johanna Bristow as UK Sales Coordinator and Lesley Jeannotte as Advertising and Publicity Coordinator; and adding representatives focusing on the Maritimes/New England and on southern California. In 2004 we are planning further growth, both through the addition of another permanent, full-time representative and taking on additional help at the peak sales period.

Overall, the 2004 sales and promotion efforts will include:

- at least 18 Broadview employees devoting all or part of their energies to North American college sales
- an additional four commission representatives involved in American college sales
- four groups of Trade Representatives handling American Trade sales
- the Kate Walker and Associates group of over 15 representatives handling Canadian Trade sales
- six commission representatives handling UK and continental EC Trade sales, with two Broadview employees making in-person academic calls in the UK
- Unireps providing Australian marketing and distribution, supported by a Broadview employee making in-person academic calls in Australia
- a Japanese agent providing representation in that market
- space advertising aimed at a mixed academic and general audience (e.g. *London Review of Books*, *New York Review of Books*)
- extensive promotion through book displays at leading academic conferences
- electronic notices providing immediate information to a wide range of interested academics

LIQUIDITY AND CAPITAL RESOURCES

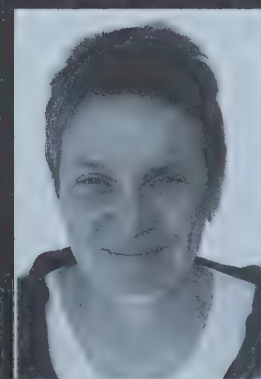
Broadview's business is highly seasonal, with a high proportion of costs incurred in the first two quarters as it invests in new titles, and the majority of revenues registered in the third and fourth quarters as orders are received for university courses beginning in September and in January. As a result of this seasonality, capital requirements for the company during the late spring and summer in particular tend to increase in line with the growth of the company, even if the company's cash flow over the course of the full year is neutral or modestly positive. The company expects this pattern to continue in 2004 and beyond. The company's facility with the TD Bank recognizes the seasonality of the business, and the company expects that its current arrangements will be adequate to meet its capital requirements for the 2004 year.



Jennifer Bingham



Jason Condon



Anne Brackenbury

BUSINESS CONDITIONS AND TECHNOLOGICAL CHANGE



Ryan Chynces

Broadview is relatively well insulated from the ongoing turmoil in the Trade sector of the North American publishing industry. The structural basis for course text sales remains strong, and the sector as a whole remains stable and profitable. Though large companies such as Pearson PLC, McGraw-Hill, and Thomson hold dominant positions in the North American (and world) English-speaking academic markets, such companies have higher overheads than smaller players, and tend to focus only on the largest course markets. It thus remains entirely feasible for smaller players in the industry to compete effectively for somewhat smaller markets, and even to enter at the fringes of the largest markets – for example, with texts that offer high quality but with fewer "bells and whistles," and at a lower price to the student.

Broadview is well positioned to publish electronically as well as in the form of bound books. Despite periodic predictions over the past 20 years of the demise of the traditional bound book in the face of electronic alternatives, thus far the impact of e-books and other technologies on sales of bound books has been negligible. The company, however, continues to monitor developments closely, while also encouraging the development of adjunct web sites as supplements to its books. The company's size dictates that it not lead the way with expensive new technological possibilities, but should there be a dramatic turn towards electronic formats, Broadview feels confident of its ability to move quickly in that direction.

BEYOND 2004

The "echo generation" will be coming to university age over the next decade, and projections are for increased post-secondary enrolments in North American universities and colleges through to approximately 2012. This suggests that the prospects for this sector of the industry remain good for the foreseeable future. The "double cohort" in the province of Ontario that began university in the autumn of 2003 should continue to produce much higher-than-normal enrollments in that province through the academic year 2006-7.

In our publishing program the most significant project for the longer term is *The Broadview Anthology of British Literature*, a multi-volume introductory-level text scheduled for early 2006 publication. More generally, the company conducted a long-range planning exercise during 2003 that has set out goals in all areas of the publishing program – and indeed the company – through to 2008.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements involving Broadview's expectations about future financial results and other matters. These statements reflect management's current forecast of certain aspects of Broadview's future business. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from historical results or current expectations. The words "plan," "expect," "believe," "intend," "anticipate," "forecast," "target," "estimate," and similar expressions identify forward-looking statements. Risk factors include shifts in consumer demand, product schedules, product mix, competitive products and pricing, technological shifts, and other variables. Readers are referred to Broadview's other public documents for further discussions of risks and uncertainties. The factors underlying forecasts are dynamic and subject to change. As a result, forecasts speak only as of the date they are given and do not necessarily reflect Broadview's outlook at any other point in time.

BROADVIEW STAFF & ASSOCIATES

Calgary Office

Keely Breibish, Publisher's Representative
Emily Cargan, Permissions Coordinator
Ryan Chynces, Publisher's Representative
Allyson Foster, Humanities Editorial and Market Researcher
Julia Gaunce, Humanities Editor
Lesley Jeannotte, Advertising & Promotions Coordinator and Publisher's Representative
Craig Lawson, Corporate Affairs Coordinator
Don LePan, President
Jennifer McCue, Assistant to the President
Tammy Roberts, Production Coordinator (West) and Publisher's Representative
Tania Therien, Assistant Humanities Editor and Publisher's Representative

Guelph Office

Johanna Bristow, UK Sales Coordinator and Social Sciences Editorial & Market Researcher
Anna Del Col, Assistant to the Vice-President and Publisher's Representative
Michael Harrison, Vice-President and Social Sciences Editor
Michelle Lobkowicz, Publisher's Representative

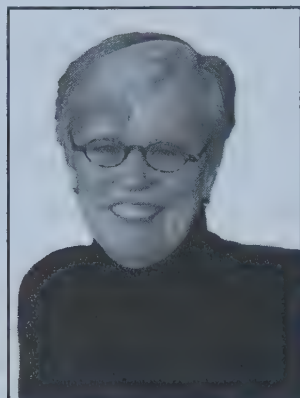
Peterborough Office

Jennifer Bingham, Production Editor
Piper-Lee Bradford, Promotion and Customer Service Representative
Torsten Buenting, Shipper
Connie Condon, Accounts Officer
Jason Condon, Shipper
Barbara Conolly, Managing Editor
LeeAnna Dykstra, Senior Accounts Officer
Julie English, Customer Service Representative
Lisa Gray, Distribution and Promotion Coordinator
Blair Hamilton, Senior Shipper
Tara Lowes, Production Editor
Reine Montgomery, Office Assistant
Janet Neale, Accounts Assistant
Carol Richardson, Comptroller and Administrative Officer

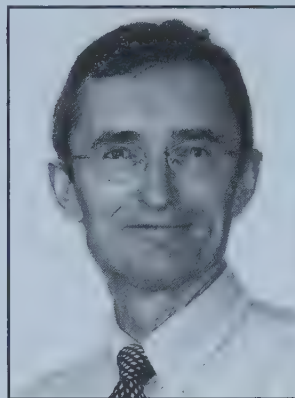
Other Locations

Anne Brackenbury, Anthropology and Sociology Editor and Senior Publisher's Representative (Toronto)
Leonard Conolly, Broadview Editions Series Editor (Peterborough)
Paul Edward Dutton, Readings in Medieval Civilizations and Cultures Series Editor (Vancouver)
Brett McLenithan, Publisher's Representative (Halifax)
Mical Moser, History Editor and Senior Publisher's Representative (Montreal, New York)

Board of Directors, Broadview Press Inc.



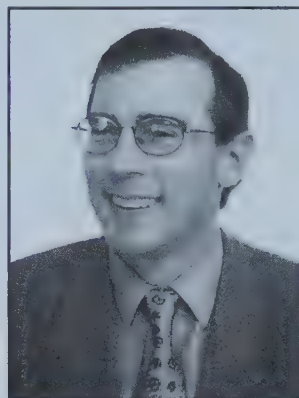
Susan Bennett
University Professor and Professor
of English, The University of Calgary



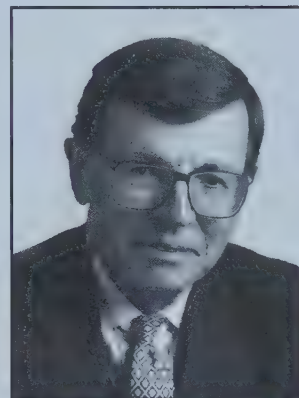
Michael Harrison
Vice-President, Broadview Press Inc.



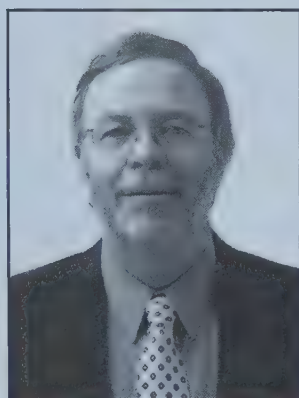
Michael Jackel
Director, York University Bookstores



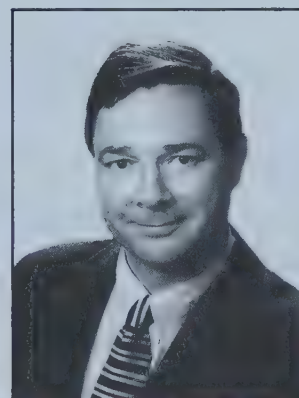
Don LePan
President, Broadview Press Inc.



The Hon. Roy MacLaren, P.C.



P. Douglas McArthur, Q.C.
PDM Ventures Inc.



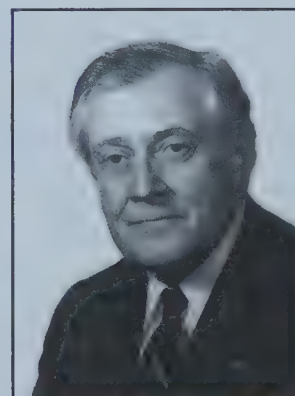
Ian Rhind (Chair)
President, CCH Canadian Ltd.



Fraser Seely
Associate Publisher of the
Heritage Publishing Group



Janet D. Sisson
Academic, Consultant



Thomas H.B. Symons, C.C., FRSC
Founding President and Vanier Professor
Emeritus, Trent University

FINANCIAL STATEMENTS

Broadview Press Inc.
Financial Statements
For the years ended December 31, 2003 and
2002

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Statements of Income and	
Retained Earnings	4
Statements of Cash Flows	5
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BDO Dunwoody LLP
Chartered Accountants
and Consultants

1900, 801 – 6 Avenue S.W.
Calgary, Alberta Canada T2P 3W2
Telephone: (403) 266-5608
Fax: (403) 233-7833

Auditors' Report

To the Shareholders of Broadview Press Inc.

We have audited the balance sheets of Broadview Press Inc. as at December 31, 2003 and 2002 and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Signed BDO Dunwoody LLP"

Chartered Accountants

Calgary, Alberta
March 3, 2004

**Broadview Press Inc.
Balance Sheets**

As at December 31

2003

2002

Assets

Current

Cash	\$ 39,650	\$ 20,430
Accounts receivable	953,168	753,794
Inventory (Note 3)	1,672,396	1,501,023
Prepaid expenses	41,755	44,584
	<u>2,706,969</u>	<u>2,319,831</u>

Capital assets (Note 4)

80,636 66,067

Future income tax asset (Note 10)

29,711 34,611

\$ 2,817,316 \$ 2,420,509

Liabilities and Shareholders' Equity

Current

Bank indebtedness (Note 5)	\$ 170,935	\$ 27,854
Accounts payable and accrued liabilities	860,428	783,850
Income taxes payable	115,483	123,428
Deferred government grant (Note 8)	201,412	202,760
	<u>1,348,258</u>	<u>1,137,892</u>

Shareholders' equity

Share capital (Note 6)	754,982	756,297
Contributed surplus (Note 6(c))	4,369	227
Retained earnings	709,707	526,093
	<u>1,469,058</u>	<u>1,282,617</u>

\$ 2,817,316 \$ 2,420,509

Approved on behalf of the Board:

Signed "Don Lepad" Director
Don N. Lepad

Signed "P. Douglas McArthur" Director
P. Douglas McArthur

Broadview Press Inc.
Statements of Income and Retained Earnings

For the years ended December 31	2003	2002
Revenue		
Publications	\$ 3,697,141	\$ 3,085,405
Government grants (Note 8)	236,135	229,540
Other income	186,756	109,425
	<u>4,120,032</u>	<u>3,424,370</u>
Cost of goods sold (Note 7)	<u>1,546,189</u>	<u>1,315,690</u>
Gross profit	<u>2,573,843</u>	<u>2,108,680</u>
Operating Expenses		
Selling expense	1,572,047	1,319,951
Administrative	585,479	466,535
Amortization	33,889	24,296
Interest	34,386	33,048
	<u>2,225,801</u>	<u>1,843,830</u>
Earnings before other items and income taxes	<u>348,042</u>	<u>264,850</u>
Other items		
Foreign exchange gain(loss)	(42,820)	4,244
Income before income taxes	<u>305,222</u>	<u>269,094</u>
Income taxes		
Current	115,483	120,301
Future	4,900	(20,211)
	<u>120,383</u>	<u>100,090</u>
Net income for the year	184,839	169,004
Retained earnings, beginning of year	526,093	360,944
Repurchase of shares (Note 6(b))	<u>(1,225)</u>	<u>(3,855)</u>
Retained earnings, end of year	\$ 709,707	\$ 526,093
Earnings per share – Basic and fully diluted	\$ 0.017	\$ 0.017
Weighted number of shares outstanding - basic	10,803,747	10,098,322
Weighted number of shares outstanding – diluted	10,953,300	10,151,254

Broadview Press Inc.
Statements of Cash Flows

For the years ended December 31	2003	2002
Cash flows from operating activities		
Net income for the year	\$ 184,839	\$ 169,004
Items not affecting cash		
Stock compensation (Note 6 (c))	4,142	227
Amortization	33,889	24,296
Future taxes	4,900	(20,211)
	<u>227,770</u>	<u>173,316</u>
Net change in non cash operating working capital items(Note 9)	<u>(300,630)</u>	<u>(55,093)</u>
	<u>(72,860)</u>	<u>118,223</u>
Cash flows from investing activities		
Additions to capital assets	<u>(48,461)</u>	<u>(33,730)</u>
Cash flows from financing activities		
Increase (decrease) in bank indebtedness	143,081	(241,847)
Private placement	-	170,761
Issue costs	-	(9,299)
Options exercised	400	200
Repurchase of common shares	<u>(2,940)</u>	<u>(18,180)</u>
	<u>140,541</u>	<u>(98,365)</u>
Increase (decrease) in cash	19,220	(13,872)
Cash, beginning of year	20,430	34,302
Cash, end of year	\$ 39,650	\$ 20,430

December 31, 2003 and 2002

1. Nature of Business

Broadview Press Inc. (the "Company") was incorporated under the laws of Alberta on July 29, 1999. By agreements dated January 7, 2000 and May 23, 2000 the Company and Broadview Press Ltd. ("AcquisitionCo.") an academic publisher in the humanities and social sciences incorporated in Ontario in 1985, entered into an acquisition agreement (the "Agreement"), which resulted in the effective acquisition of the Company by AcquisitionCo.

The companies Broadview Press Inc. and Broadview Press Ltd. were amalgamated into Broadview Press Inc. on January 1, 2003 under the Alberta Business Corporations Act, and therefore, the financial statements no longer require presentation on a consolidated basis.

As a result of the amalgamation, the Company operates in one business segment; book publishing and all its capital assets are located in Canada.

2. Significant Accounting Policies

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures on contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and reflect the following policies:

(a) Principles of consolidation

For the fiscal year ended December 31, 2002, the financial statements included the accounts of the Company and its wholly owned subsidiary Broadview Press Ltd. All significant inter company transactions were eliminated. As described in Note 1, the parent and subsidiary companies were amalgamated on January 1, 2003 and therefore consolidation of the entities is no longer required.

(b) Inventory

Finished goods inventory is valued at the lower of cost and estimated net realizable value with cost being determined on a weighted average basis. Finished goods inventory more than three years old, unless in reprint, is considered to have no net realizable value. Prepaid production costs consist of the cost of labour and materials for publications currently in progress.

(c) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the declining balance and straight line method at the following annual rates:

Furniture and fixtures	20%
Computer equipment	30%
Computer software	100%
Leasehold improvements	5 years straight line
Vehicles	30%

On the disposal of capital assets, the cost of the asset and the related accumulated amortization are removed from the accounts and the resultant gain or loss on disposal is included in income.

December 31, 2003 and 2002

2. Significant Accounting Policies - continued

(d) Revenue recognition

Revenue from sale of books is recognized upon shipment to customers. The Company maintains estimated reserves for sales returns. Provision for sales returns is based on the history of sales returns applied to sales for the last three months at the period-end. Revenue from shipment on consignments is recorded upon the actual sales to customers by the distributors. Government grants are recognized as revenue in the year specified in the grant agreement.

(e) Foreign currency

The Company translates amounts of foreign currency into Canadian dollars on the following basis:

- (i) Monetary items are translated at the rate prevailing at the date of the balance sheet;
- (ii) Non-monetary items are translated at historical exchange rates;
- (iii) Revenue and expenses are translated at an average exchange rate for the year; and
- (iv) Gains or losses arising on translation are credited or charged to income in the year in which they arise.

(f) Financial instruments

The Company carries various financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair market values of these financial instruments approximate their carrying values, unless otherwise noted.

(g) Income taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future tax assets are recognized to the extent that they are more likely than not to be realized.

(h) Stock option plan

Effective January 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870; Stock based compensation and other stock-based payments. This section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the statements of income and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. None of the Company's plans qualify as direct awards of stock or as plans that create liabilities based on the price of the company's stock. The Company has chosen to use the fair value method to account for stock-based employee compensation plans for options granted after January 1, 2002. The Company records compensation expense when options are issued to employees. The expense is recognized over the related vesting period. Any consideration paid by employees on the exercise of the options is credited to capital stock.

December 31, 2003 and 2002

2. Significant Accounting Policies - continued

(i) Measurement uncertainty

The amounts for doubtful accounts are estimated by management periodically. By their nature, these estimates are subject to measurement uncertainty. The effect on the financial statements for changes in estimates, in future periods, could be significant.

The effect on the financial statements resulting from such adjustments required to the above estimates, if any, will be reflected in the period a determination is made that an adjustment is warranted.

(j) Forward currency forward contracts

In the normal course of business the Company enters into short-term foreign currency contracts with financial institutions to hedge receivables denominated in foreign currency. Gains and losses on foreign currency forward contracts are recognized in the same period as when the related accounts receivable are collected and are included in foreign exchange gains or losses.

3. Inventory

Inventory includes finished stock totaling \$1,446,974 (2002 - \$1,313,771) and pre production costs totaling \$225,422 (2002 - \$187,252). (See Notes 2(b) and Note 7).

4. Capital Assets

	2003			2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	46,504	29,484	17,020	44,001	25,542	18,459
Computer equipment	142,734	96,604	46,130	118,576	82,011	36,565
Computer software	59,761	50,696	9,065	41,632	37,738	3,894
Leasehold improvements	11,089	3,939	7,150	7,421	2,088	5,333
Vehicle	6,225	4,954	1,271	6,225	4,409	1,816
	\$ 266,313	\$ 185,677	\$ 80,636	\$ 217,855	\$ 151,788	\$ 66,067

5. Bank Indebtedness

The Company has available an operating facility of \$400,000 with an additional bulge facility of \$400,000. The Company's bank indebtedness is secured by a general assignment of accounts receivable as well as a general security agreement and bears interest at the rate of prime plus 1.25% with interest payable monthly. As of December 31, 2003, \$229,065 of the base operating facility was unused.

December 31, 2003 and 2002

6. Share Capital

(a) Authorized

Unlimited number of Common shares.

(b) Issued and outstanding

Common shares

	2003		2002	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	10,818,163	\$ 756,297	9,984,993	\$ 602,435
Private placement, for cash	-	-	948,670	170,761
Options exercised, for cash	4,000	400	2,000	200
Issue costs	-	-	-	(9,299)
Repurchase of share capital ⁽¹⁾	(24,500)	(1,715)	(117,500)	(7,800)
Balance, end of year	10,797,663	\$ 754,982	10,818,163	\$ 756,297

⁽¹⁾ The Company repurchased 24,500 shares (2002 - 117,500) under a normal course issuer bid at \$0.12 (2002 - ranging from \$0.12 to \$0.18) per share. Share capital has been reduced by the average carrying amount of \$1,715 (2002 - \$7,800) with the excess of \$1,225 (2002 - \$3,855) being a decrease in retained earnings.

(c) Stock compensation

In 2002 the Company implemented the Canadian Institute of Chartered Accountant ("CICA") Handbook section 3870, Stock based compensation and other stock-based payments as detailed in 2(h). As a result, the Company expenses the fair value of the options, over the corresponding vesting period, when stock options are granted to consultants, directors and/or employees.

(d) Shares in escrow

At year-end, the client had 1,885,400 (2002 - 3,063,178) shares in escrow.

(e) Normal course issuer bid

The Company has approval to purchase up to 539,983 shares between September 12, 2003 and September 11, 2004.

(f) Stock option plan

The Company has established an incentive stock option plan (the "Plan") to encourage ownership of the Company's common shares by its officers, directors, employees and consultants. The maximum number of common shares which may be reserved for issue under the Plan is the lesser of 1,000,000 common shares and 10% of the issued and outstanding common shares of the Company, with the provision that the Board of Directors of the Company has the right from time to time to increase such number subject to the approval of the shareholders of the Company. The Plan provides that the terms of the options and the option prices shall be fixed by the directors subject to the price restrictions and other requirements imposed by the TSX Venture Exchange. Options under the Plan may not be issued for a period longer than five years and the exercise price must be paid in full upon exercise of options.

December 31, 2003 and 2002

6. Share Capital – continued

The following is a summary of stock options outstanding at December 31, 2003 and 2002:

	Weighted average exercise price	Number outstanding
Balance at December 31, 2001	\$ 0.124	682,333
Granted	0.150	201,500
Exercised	0.100	(2,000)
Balance, December 31, 2002	\$ 0.130	881,833
Balance at December 31, 2002	\$ 0.130	881,833
Granted	0.190	83,500
Exercised	0.100	(4,000)
Balance, December 31, 2003	\$ 0.136	961,333

The outstanding stock options as at December 31, 2003 will expire as follows:

Number of stock	Date of expiry	Exercise price	Weighted average remaining term (years)	Options exercisable
333,333	December 3, 2004	\$0.15	0.9	333,333
162,500	December 12, 2005	\$0.10	1.9	109,667
180,500	December 11, 2006	\$0.10	2.9	60,500
201,500	December 12, 2007	\$0.15	3.9	201,500
83,500	December 9, 2008	\$0.19	4.9	83,500

Of the 83,500 (2002 – 201,500) options granted in 2003, 56,000 (2002 – 174,000) have been issued to employees and directors and 27,500 (2002 – 27,500) to consultants.

7. Cost of Goods Sold

2003

2002

Production and other costs	\$ 967,632	\$ 781,028
Wages	123,755	80,430
Inventory write off (Note 2(b))	123,355	167,575
Royalties	331,447	286,657
	<u>\$ 1,546,189</u>	<u>\$ 1,315,690</u>

December 31, 2003 and 2002

8. Government Grants

During the year, the Company received a grant in the amount of \$201,412 (2002 - \$202,760) from the Department of Canadian Heritage towards expenditures to be incurred in the following fiscal year. Accordingly, this amount is shown as a deferred government grant. Under the terms of the grant, the Company is required to allocate 20% of the grant to supporting eligible national marketing expenditures. Furthermore, the Company is required to reimburse the Government for the full amount of the grant if the grant equals or is greater than \$100,000 and the Company's net profit before tax equals or is greater than 10 percent of total sales during the three year period following the receipt of the funds. Net profit and revenue for the purposes of the calculation is deemed to be net of financial assistance received from Department of Canadian Heritage.

Included in income is \$33,375 (2002 - \$45,500) received from the Export Marketing Assistance Program from the Association for the Export of Canadian Books. The remainder reflects grant monies received from the Department of Canadian Heritage towards expenditures incurred by the Company.

As at year-end, management does not believe that the Company will have to repay any of the grants in the future.

9. Net Change in Non Cash Working Capital Items

	2003	2002
Accounts receivable	\$ (199,146)	\$ 28,612
Inventory	(171,597)	(149,929)
Prepaid expenses	2,829	(13,105)
Accounts payable and accrued liabilities	76,577	(8,086)
Deferred government grant	(1,348)	18,620
Income taxes payable	(7,945)	68,795
	<u>\$ (300,630)</u>	<u>\$ (55,093)</u>

10. Income Taxes

The Company has undepreciated capital costs available for income tax purposes of approximately \$74,974 (2002 - \$57,955).

The future tax liability (asset) recorded is comprised of:

Nature of temporary differences	2003	2002
Capital assets	\$ (2,038)	\$ (3,000)
Reserve against sales returns	26,273	20,350
Share issue costs	5,476	17,261
Future income tax asset, net	<u>\$ 29,711</u>	<u>\$ 34,611</u>

December 31, 2003 and 2002

10. Income Taxes - continued

The non-current future income tax asset as at December 31, 2003 includes the future tax benefit of share issue costs and has been credited to share capital.

The reconciliation of the Company's effective income tax rate for the years ended December 31, is as follows:

	2003	2002
	40%	40%
Statutory tax rate, effective		
Income taxes at the statutory rate	\$ 122,100	\$ 107,637
Other permanent differences	(1,717)	(7,547)
Income tax expense	<u>\$ 120,383</u>	<u>\$ 100,090</u>

11. Related Party Transactions

During the year, the Company expensed \$144,616 (2002 - \$123,950) in wages to two of its directors who are also full-time employees.

12. Segmented Information

The Company operates in one industry segment, book publishing, and all of the Company's capital assets are located in Canada.

13. Export Sales

Included in revenue is \$1,840,835 (2002 - \$1,569,818) in export sales to other countries.

14. Commitments

The Company has entered into various office and warehouse leases. The aggregate annual rental payments on these leases are \$53,316 until February 2004. These leases are reviewed yearly. The Company also has equipment lease commitments of approximately \$5,000 per year for the next 3 years.

December 31, 2003 and 2002

15. Risk Management

(a) Interest rate risk

The financial risk to the Company's earnings arises from fluctuation in interest rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

As at December 31, 2003, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$1,700 (2002 – \$3,000) per annum. The related disclosure regarding these debt instruments is included in Note 5 of these financial statements.

(b) Foreign exchange risk

The Company undertakes sales transactions in foreign currencies, and therefore is subject to gains or losses due in fluctuations in foreign currencies. The impact on the financial statements of a 1% change in foreign currency is \$5,000 (2002 - \$3,000) on trade receivables. The Company is mainly exposed to U.S. currency risk.

During 2003 the Company utilized foreign currency contracts to manage foreign currency rate fluctuation exposures on U.S. dollar account receivable. At December 31, 2003 the Company had no remaining commitments under such contracts.

(c) Credit risk

The Company's exposure to credit risk arises from the possibility that its customers may fail to meet their obligations. The Company has one customer that represents 11% of accounts receivable. The Company manages this risk through proactive credit screening and a stringent collection policy.

16. Comparative Figures

Certain of the 2002 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2003.

December 31, 2003 and 2002


17. Stock Compensation

The fair value of share options issued in 2003 was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.05), risk-free interest rate (5.0%), and weighted average life of 5 years at \$0.042 per option. As these options were issued December 9, 2003 and vest commencing December 9, 2003, the net effect of \$130 has been recorded for the 22 day period ended December 31, 2003. The remaining compensation expense will be recorded over the period that these options vest.

The fair value of share options issued in 2002 was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.07), risk-free interest rate (5.0%), and weighted average life of 5 years at \$0.034 per option. As these options were issued December 12, 2002 and vested commencing December 12, 2003, the net effect of \$227 was recorded for the 19 day period ended December 31, 2002. The remaining compensation expense is being recorded over the period that these options vest.

18. Subsequent Event

On March 1, 2004, the Company established an Employee, Director, and Consultant Share Ownership Plan and Group Retirement Savings Plan, with participation being limited to employees only during the Plan's first year. Employees may contribute between one and five per cent of their gross salary, and these contributions will be matched 100 per cent by the Company, subject to limits on the Company contributions as may be established by the Company from time to time. For the calendar year 2004, the Company will match total contributions up to a maximum of \$18,000.



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Patrick Geary, Department of History, UCLA, and editor of *Readings in Medieval History*, third edition (Broadview Press, 2003)

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